

Understanding Property Taxes

As a property owner, the subject of property taxes is probably a familiar one. Yet it may be unclear just how your tax assessment is calculated, or where your tax dollars actually go. This brochure is designed to provide you with basic information on how the property tax process works.

Equitable Valuation For All Property Owners

Property taxes are part of a balanced revenue system. Your property is appraised and taxed so that you and other property owners can support – in proportion to the value of your property – school systems and local government services.

The State of Montana, through the Department of Revenue, is responsible for valuing all taxable real and personal property. Department of Revenue field offices accomplish this property valuation. State guidelines are followed to ensure property is appraised in a fair and equitable manner.

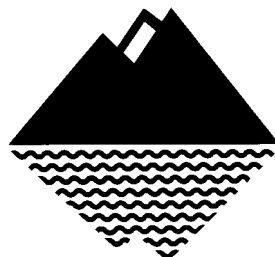
The amount of property tax you pay is not determined solely by your property's value. Your property's value is multiplied by a tax rate, set by the Montana Legislature, to determine its taxable value. The taxable value is then multiplied by the mill levy established by various taxing jurisdictions – city and county government, school districts and others – to provide services in your area.

The following calculations are used to determine general property tax:

$$\begin{aligned}\text{Value} \times \text{Tax Rate} &= \text{Taxable Value} \\ \text{Taxable Value} \times \text{Mill Levy} &= \text{General Property Tax}\end{aligned}$$

The property tax process begins with an appraisal of your property. State law requires the Department of Revenue to reappraise property periodically. The most recent reappraisal was completed on December 31, 2002.

The 2003 Montana Legislature continued the mitigation of valuation increases due to reappraisal by phasing in the reappraised value at a rate of 16.66% per year, by continuing a partial exemption for residential and commercial properties, by providing for an extended property tax assistance program to qualifying taxpayers, and by reducing the tax rate.



Montana Department of
REVENUE

2003 Law Changes

The 2003 legislation is summarized in the following points:

- All commercial properties receive a 13% exemption for tax year
- For properties that realized an increase in value due to reappraisal, 16.66 percent (16.66%) of the difference between the 2003 full reappraisal value and the 2002 value before reappraisal will be added to the 2002 value before reappraisal. This is also called a *Phase-in Value*. An additional 16.66% will be added each year until the property is at the full 2003 reappraisal value for tax year 2008.
- For properties that realized a decrease in value due to reappraisal, the value is set at the lower 2003 reappraisal value. There is no phase-down of values.
- All residential properties receive a 31% exemption for tax year 2003. This homestead exemption incrementally increases to 34% for tax year 2008 and succeeding years.
- 2003. This comstead exemption gradually increases to 15% for tax year 2008 and succeeding years. The tax rate for 2003 will be 3.40%, and will be adjusted downward, annually, until it reaches 3.01% in 2008.
- After your property has been adjusted for the 16.66% phase-in and the residential or commercial exemption, the figure that remains is identified on your assessment notice as the *Taxable Market Value (TMV)*. The tax rate will be applied to this value to determine your 2003 taxable value.

Following are two examples. The first is a residential property; the second is a commercial property.

Example 1:

Residential Property Tax Calculation



\$ 80,000	2003 full reappraisal value
- \$60,000	2002 value before reappraisal
\$ 20,000	increase from reappraisal
<u>x .1666</u>	16.66% phase-in of increase
\$ 3,332	
<u>+\$60,000</u>	2002 value before reappraisal
\$ 63,332	2003 phase-in value
<u>X .69</u>	2003 homestead exemption (31%)
\$ 43,699	2003 taxable market value (TMV)
<u>x .0340</u>	(3.40 %) tax rate
\$ 1,486	taxable value (approx.)
x . 425	x .425 (425 mills) mill levy
\$ 632	general property tax (approx.)

*Mill levies vary by taxing jurisdiction

Example 2:

Commercial Property Tax Calculation

\$ 1,900,000	2003 full reappraisal value
- 1,200,000	2002 value before reappraisal
\$ 700,000	increase from reappraisal
x .1666	16.66% phase-in increase
\$ 116,620	
+\$1,200,000	2002 value before reappraisal
\$ 1,316,620	2003 phase-in value
x .87	2003 comstead exemption (13%)
\$ 1,145,459	2003 taxable market value (TMV)
x .0340	(3.40%) tax rate
\$ 38,946	taxable value (approx.)
x .425	(425 mills) mill levy*
\$ 16,552	general property tax (approx.)



*Mill levies vary by taxing jurisdiction

The information about your property is maintained in the Department of Revenue field office located in your county. The information includes a legal description of your property, ownership information, land data and building characteristics.

What is Real Property?

Real property includes land and improvements to the land. Examples of improvements would be buildings and structures.

What is Personal Property?

Personal property is all other taxable property. Personal property includes farm machinery, heavy equipment and business equipment.

What is an Appraisal?

An appraisal is an estimate of market value placed on all real property and mobile homes.

What is Market Value?

Market value is the most probable price a property would bring in the open market. The buyer and seller must be knowledgeable and not unduly pressured into buying. There must be sufficient time for the sale.

What is a Mill?

A mill is a monetary unit that equals 1/10th of a cent...or \$1 tax on every \$ 1,000 of a property's taxable value.

Three Approaches Used To Determine Property Value

The **sales comparison approach** compares your property to others that have sold recently in your area and that have similar characteristics. Adjustments are made to account for any differences in your property.

The **cost approach** is a determination of current replacement cost of improvements, less depreciation, plus land value.

The **income approach** may be used in the valuation of commercial properties when income (rents) and expenses can be compared. This approach involves the capitalization of net operating income into value using a rate.



When You Receive Your Assessment Notice

Valuation Review and Appeal Process

The purpose of the assessment notice is to advise the property owner of any changes in ownership or value. Study it carefully. If the assessment notice reflects a value with which you disagree, or if you have any questions concerning the value or property characteristics, call the Department of Revenue field office immediately. **Do not wait until you receive your tax bill if you have questions about your property value.** By then, the deadline to appeal has passed.

You should give special attention to the total values in the shaded columns on the assessment notice. Those values will provide the best value change comparison due to reappraisal. They will also reflect the legislature's efforts to mitigate value changes by providing a phase-in of value, increasing the homestead/comstead exemption, and reducing the tax rate. Also, an asterisk in the column titled "2002 Value Before Reappraisal" indicates the 2002 Value Before Reappraisal (VBR) was adjusted to reflect new construction, destruction or a land use change that occurred to the property.

The field office provides an informal property review process. This allows you an opportunity to have your questions answered concerning the value placed on the property. The informal review is started by filling out an AB-26 form, available from the Department of Revenue field office. The form must be completed and filed within thirty days of receipt

of the assessment notice. You will be provided with a written decision on your concerns.

We would encourage property owners who have questions or concerns about their property values to use the AB-26 process. It's normal to reach a resolution at that stage. If you are not satisfied with the appraiser's decision on the AB-26 review, or if for some reason you don't want to use the AB-26 process to request a review of your value, you can appeal your value to the County Tax Appeal Board. Appeals to the County Tax Appeal Board must be filed within thirty days of the receipt of the AB-26 decision.

If you are not satisfied with the County Tax Appeal Board's decision, you may appeal to the State Tax Appeal Board. Appeals to the State Tax Appeal Board must be filed within thirty days of receiving the County Tax Appeal Board's decision. The decision of the State Tax Appeal Board is final unless district court action is pursued.

If you have an AB-26 review or appeal pending, the law requires you to pay your taxes under protest in order to receive any refund and accrued interest. This must be done before your taxes become delinquent. The protest must be in writing, specifying your grounds for protest and listing the amount of the taxes you are paying under protest.

Property Tax Relief

There are several programs available that could reduce your property taxes. For information and applications, contact the Department of Revenue field office in the county in which the property is located.

Income-based Reduction

The Property Tax Assistance Program offers a property tax reduction based on your income. There is no age limit. The application deadline is March 15 each year.

Extended Property Tax Assistance

This is a new program passed by the 2003 Montana Legislature. The program offers a reduction to the tax rate used to determine tax liability on a residence and up to five acres of appurtenant land for those persons or entities who meet the following four specific criteria:

- 1) the taxable value of the property must have increased by more than 24% as a result of the 2003 reappraisal;
- 2) the property tax liability must have the potential to increase by \$250 or more (based on use of the 2002 mill levy);
- 3) the property owner must have owned the residence as of December 31, 2002, and; 4) owners' total household income may not exceed \$75,000. Effective with the 2004 tax year, the filing deadline is March 15 each year.

100% Disabled Veterans Reduction

A tax exemption is available for veterans who have been honorably discharged from active service and are currently rated 100% disabled or are paid at the 100% disabled rate due to a service connected disability. The application deadline is March 15 each year.

Natural Disaster Tax Relief

Natural Disaster Tax Relief is available if your property has been destroyed by a natural disaster to such an extent that the improvements have been rendered unsuitable for its previous use. Natural disaster includes fire, flood, earthquake or wind.

Non-fossil Energy Reduction

Using non-fossil forms of energy may also qualify you for a property tax exemption. These types of energy include, but are not limited to, solar heat systems and ground source heat pumps. The application deadline is April 1 each year.

Income Tax Relief

Elderly Homeowner/Renter Credit (Form 2EC)

An income tax credit is available to qualifying taxpayers. The amount of the credit is based on household income

adjusted by the amount of property taxes, fees, special assessments and SIDs billed on a residence and land not to exceed one acre.

The Budget Process

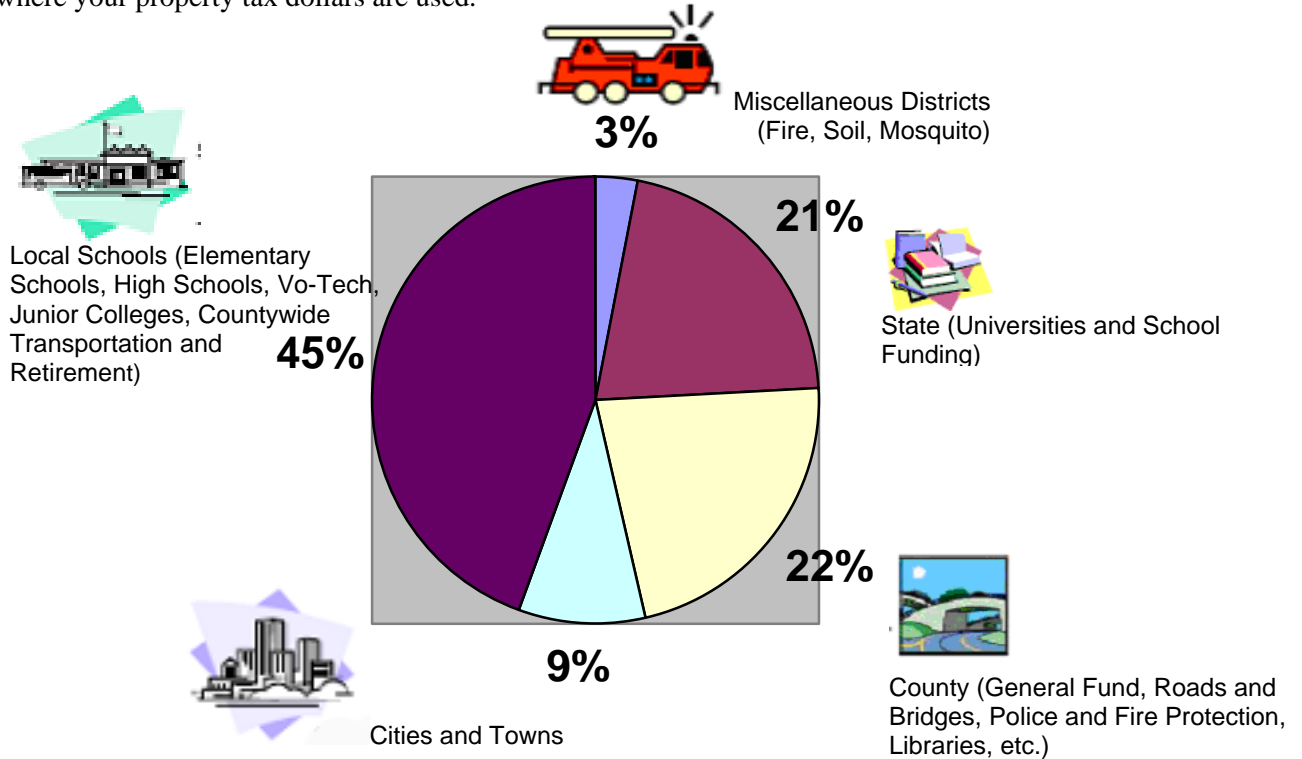
Each year, the Department of Revenue field offices must certify the taxable value of all properties incorporated within the boundaries of each taxing jurisdiction or school district. This valuation is then submitted to the taxing jurisdictions and the county commissioners.

The taxing jurisdictions then set mill levies based on these values and the budget required to provide the necessary services. The levy is calculated by dividing the necessary budget by the taxable value. You may attend budget meetings to learn about services provided by your taxing jurisdictions.

In addition to the local levies, there are statewide mills mandated by the Montana Legislature to provide school equalization and funding for the university system. Real property tax bills are typically mailed the end of October. Most tax bills contain the owner's name, legal description of the property, total taxable value and the amount of general property tax. The special fees that are levied against the property, such as street maintenance, irrigation, sewer, fire service, garbage and city special assessments, are then added to the general property tax.

Where Do Property Tax Dollars Go?

Schools and many other services are funded by your property tax dollars. The following pie chart displays basic areas where your property tax dollars are used.



For More Information

The Department of Revenue field offices are happy to provide you with additional information on the property tax process. All phone numbers listed are in Area Code 406.

Beaverhead	683-4000	Flathead	758-5700	McCone	485-3432	Roosevelt	653-6256
Big Horn	665-9710	Gallatin	582-3400	Meagher	547-3653	Rosebud	356-2516
Blaine	357-3210	Garfield	557-6164	Mineral	822-3540	Sanders	827-6932
Broadwater	266-9206	Glacier	873-5063	Missoula	329-1400	Sheridan	765-2291
Carbon	466-1223	Golden Valley	568-2371	Musselshell	323-1513	Silver Bow	497-6280
Carter	775-8717	Granite	859-3521	Park	222-4113	Stillwater	322-8015
Cascade	454-7460	Hill	265-5481	Petroleum	429-5231	Sweet Grass	932-5149
Chouteau	622-5261	Jefferson	225-4001	Phillips	654-2123	Teton	466-2908
Custer	232-6437	Judith Basin	566-2291	Pondera	271-4012	Toole	424-8370
Daniels	487-2791	Lake	883-7227	Powder River	436-2407	Treasure	342-5540
Dawson	377-4256	Lewis & Clark	444-4000	Powell	846-3680	Valley	228-6236
Deer Lodge	563-4048	Liberty	759-5126	Prairie	635-5560	Wheatland	632-4894
Fallon	778-7172	Lincoln	293-6898	Ravalli	375-6311	Wibaux	796-2483
Fergus	538-5723	Madison	843-5335	Richland	433-6834	Yellowstone	896-4000

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